

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TEN)

Docket No. RM2015-19

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(August 31, 2015)

The United States Postal Service hereby provides its responses to Questions 1-5 of Chairman's Information Request No. 1, issued August 24, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 31, 2015

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1. The Postal Service states that "[t]he CAGs were delineated by revenue amount...." Proposal Ten at 5 n.3.
 - a. Please define the revenue unit that determines CAG levels and provide a table delineating the number of revenue units for each CAG level.
 - b. Please provide the value of the revenue unit for Fiscal Years 2013, 2014, and 2015.

RESPONSE:

- a. The revenue unit is the average revenue for 1,000 pieces of revenue-generating mail and special services transactions. The table below delineates the number of revenue units that determines each CAG level:

CAG	Revenue Units	
	From	Through
A	356,250	And Over
B	118,750	356,249
C	23,750	118,749
D	11,875	23,749
E	4,750	11,874
F	2,150	4,749
G	950	2,149
H	430	949
J	190	429
K	36	189
L	Up Through	35

- b. The revenue unit factors for the last three available years are:

FY2014: 430.96, FY2013: 410.61, FY2012: 401.54

The factor is not yet available for FY15.

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2. The Postal Service states that “the recent increases in Cost Segment 4 costs are the result of reclassifying the positions and shifting them from postmasters (Cost Segment 1) to clerks (Cost Segments 3 and 4), and are not due to increases in total costs at the very small post offices.” *Id.* at 3.
- a. Please explain which CAG levels represent “very small post offices.”
 - b. Please provide a method of calculating the total costs for each small post office CAG level if Cost Segments 3 and 4 are combined.
 - c. Please confirm that the costs solely attributable to CAG K and CAG L post offices can be readily extracted if Cost Segments 3 and 4 are merged. If not confirmed, please explain.

RESPONSE:

- a. The quoted statement refers to post offices in CAGs H-L.
- b. Total (“accrued”) costs by CAG can be computed from the Trial Balance source data (at the finance number level) underlying ACR2014 folder USPS-FY14-5, by summing expenses within each CAG.
- c. Confirmed.

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3. The Postal Service states “the data demonstrate that the distribution of product costs in Cost Segment 4 is not statistically significantly different than for other small offices, such as CAG H and J...” *Id.* at 2. Please provide numerical support for this statement for Fiscal Years 2013, 2014, and 2015.

RESPONSE:

The Postal Service has compared the direct tallies (tallies identifying specific mail products) between the CAG K and H/J strata using a Chi-square test. The SAS program and its output are provided as Attachments 1 and 2 to this response. While the comparison for FY2014 does show a statistically significant difference, the comparisons for FY2013 and FY2012 are not significant at the 95 percent confidence level¹. There are so few tallies in certain cells of the FY14 CAG K data that despite grouping tallies, the Chi-square test may not be a valid approach; note the warnings from the SAS software for the FY2014 analysis. Furthermore, the variation in the CAG K distribution from year to year is very large. In order to ameliorate the small sample size, data from FY2012 through FY2014 has been pooled together and this combined analysis shows no significant difference between CAG K and H/J.

¹ The difference between the CAG strata is statistically significant if the Chi-Square statistic, shown in the SAS output in attachment 2, attains its value with probability less than 0.05. A probability that is greater than 0.05 indicates that the difference is not statistically significant. FY2015 data are not available.

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Attachment 1: SAS Program for analysis for ChIR1, Question 3

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*Analysis for RM2015-9, ChIR1, Question 3;
*Compare distribution keys of CAG K versus CAGs H/J strata;

data tally;
  set &tall12. (in=a) &tall13. (in=b) &tall14. (in=c);
  if a then yr = "FY12";
  else if b then yr = "FY13";
  else if c then yr = "FY14";
  where f7 in ('H','J','K') and f262 < '5000';
  if f7 = 'K' then groupcag='K';
  else groupcag = 'H';
run;

data tallykey;
  format product $12.;
  set tally;
  * pool tallies together to make cells with large enough tally counts;
  if substr(F262,2,2) in ("02","04","06") then product = "01FirstClass";
  else if substr(F262,2,2) in ("31","34") then product = "02Standard ";
  else product = "03Other ";
run;

*compare the row percentages by year;
proc freq data=tallykey;
  tables groupcag*product/ missing chisq;
  by yr;
  where substr(F257,2,1) in ('1','2');
run;

*compare the row percentages for all years together;
proc freq data=tallykey; title "Compare CAG K to H/K for FY12-FY14";
  tables groupcag*product/ missing chisq;
  where substr(F257,2,1) in ('1','2'); *Clerks/mailhandlers only;
run; title;
```

Attachment 2 to Q. 3, ChIR No. 1 (Prop Ten)

The SAS System**The FREQ Procedure****yr=FY12**

Frequency Percent Row Pct Col Pct	Table of groupcag by product				
	groupcag	product			
		01FirstClass	02Standard	03Other	Total
H		273	177	543	993
		26.92	17.46	53.55	97.93
		27.49	17.82	54.68	
		98.20	97.25	98.01	
K		5	5	11	21
		0.49	0.49	1.08	2.07
		23.81	23.81	52.38	
		1.80	2.75	1.99	
Total		278	182	554	1014
		27.42	17.95	54.64	100.00

Statistics for Table of groupcag by product

Statistic	DF	Value	Prob
Chi-Square	2	0.5321	0.7664
Likelihood Ratio Chi-Square	2	0.4993	0.7791
Mantel-Haenszel Chi-Square	1	0.0053	0.9422
Phi Coefficient		0.0229	
Contingency Coefficient		0.0229	
Cramer's V		0.0229	

Sample Size = 1014

Attachment 2 to Q. 3, ChIR No. 1 (Prop Ten)

The SAS System**The FREQ Procedure****yr=FY13**

Frequency Percent Row Pct Col Pct	Table of groupcag by product				
	groupcag	product			
		01FirstClass	02Standard	03Other	Total
H		322	220	645	1187
		26.70	18.24	53.48	98.42
		27.13	18.53	54.34	
		97.58	99.10	98.62	
K		8	2	9	19
		0.66	0.17	0.75	1.58
		42.11	10.53	47.37	
		2.42	0.90	1.38	
Total		330	222	654	1206
		27.36	18.41	54.23	100.00

Statistics for Table of groupcag by product

Statistic	DF	Value	Prob
Chi-Square	2	2.3522	0.3085
Likelihood Ratio Chi-Square	2	2.2624	0.3226
Mantel-Haenszel Chi-Square	1	1.2102	0.2713
Phi Coefficient		0.0442	
Contingency Coefficient		0.0441	
Cramer's V		0.0442	

Sample Size = 1206

Attachment 2 to Q. 3, ChIR No. 1 (Prop Ten)

The SAS System**The FREQ Procedure****yr=FY14**

Frequency Percent Row Pct Col Pct	Table of groupcag by product				
	groupcag	product			
		01FirstClass	02Standard	03Other	Total
H		360	290	782	1432
		24.86	20.03	54.01	98.90
		25.14	20.25	54.61	
		99.17	97.32	99.36	
K		3	8	5	16
		0.21	0.55	0.35	1.10
		18.75	50.00	31.25	
		0.83	2.68	0.64	
Total		363	298	787	1448
		25.07	20.58	54.35	100.00

Statistics for Table of groupcag by product

Statistic	DF	Value	Prob
Chi-Square	2	8.6505	0.0132
Likelihood Ratio Chi-Square	2	7.0221	0.0299
Mantel-Haenszel Chi-Square	1	0.6427	0.4227
Phi Coefficient		0.0773	
Contingency Coefficient		0.0771	
Cramer's V		0.0773	
WARNING: 33% of the cells have expected counts less than 5. Chi-Square may not be a valid test.			

Sample Size = 1448

Attachment 2 to Q. 3, ChIR No. 1 (Prop Ten)

Compare CAG K to H/K for FY12-FY14**The FREQ Procedure**

Frequency Percent Row Pct Col Pct	Table of groupcag by product				
	groupcag	product			
		01FirstClass	02Standard	03Other	Total
H		955	687	1970	3612
		26.04	18.73	53.71	98.47
		26.44	19.02	54.54	
		98.35	97.86	98.75	
K		16	15	25	56
		0.44	0.41	0.68	1.53
		28.57	26.79	44.64	
		1.65	2.14	1.25	
Total		971	702	1995	3668
		26.47	19.14	54.39	100.00

Statistics for Table of groupcag by product

Statistic	DF	Value	Prob
Chi-Square	2	2.8256	0.2435
Likelihood Ratio Chi-Square	2	2.6965	0.2597
Mantel-Haenszel Chi-Square	1	1.0918	0.2961
Phi Coefficient		0.0278	
Contingency Coefficient		0.0277	
Cramer's V		0.0278	

Sample Size = 3668

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4. The Postal Service states that “[t]he Cost Segment 3 account numbers and titles would be retained, and the CRA Component will be expanded to ‘253 & 42’.” *Id.* at 4. Cost Segment 4 currently is comprised of CRA Components 42 and 254.
- a. Please confirm that the Cost Segment 4 CRA Component referred to as “254” will be deleted. If not confirmed, please explain what the component will represent if Proposal Ten is approved.
 - b. Please clarify whether the 3-digit sub-account for CAG K clerks, currently labeled “105,” will be eliminated when the Cost Segment 4 trial balance accounts are merged with the Cost Segment 3 trial balance accounts.

RESPONSE:

- a. Confirmed
- b. The 3-digit subaccount 105 for CAG K clerks will be eliminated and the costs for those clerks will be included in the appropriate accounts with the costs for all clerks in Cost Segment 3, subaccount 104.

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5. The proposal notes that Cost Segment 4 costs would be grouped with Cost Segment 3 costs and allocated "subject to the accepted cost methodology." *Id.* at 4.
- a. Please provide the method and rationale currently used to allocate costs related to clerks that now perform postmaster duties. See *id.* at 3. Please provide any changes to the established method of allocating these Cost Segment 4 costs proposed in this proceeding.
 - b. Please explain the differences between the current accepted cost methodologies for Cost Segment 3 costs and Cost Segment 4 costs.

RESPONSE:

- a. The methods and rationales for attributing costs for clerk activities are described in the "Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2014", files CS03-14.docx and CS04-14.docx (for Cost Segment 3 and Cost Segment 4, respectively), filed with the Commission on July 1, 2015. Generally, postmaster duties and clerk duties at CAG K post offices resemble each other. These duties include processing mail for delivery and/or dispatch, serving customers at the window, and performing administrative tasks. The clerk methods depend on the type of activity, and thus may vary depending on the nature of the "postmaster duties" the question refers to, as described in the referenced documents.
- b. Cost Segment 4 methods feature a simpler division of costs into 100 percent variable and institutional categories compared to Cost Segment 3 methods. In both cost segments, most costs for mail processing activities are mostly classified as (100 percent) variable. The accepted method for Cost Segment 3.2 incorporates a

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number of non-unit variabilities based on transaction time studies. Corresponding activities in Cost Segment 4 are classified as either institutional (stamp sales) or variable (other activities serving customers at windows). Likewise, administrative clerk costs in Cost Segment 3.3 have various treatments, depending on the nature of the activities, that attribute some costs to products; corresponding activities would be treated as institutional costs in Cost Segment 4. As noted in the Summary Description, the details of the accepted attribution methods in Cost Segment 4 are assumed rather than based on "more detailed analyses" due to the relatively small Cost Segment 4 costs prior to FY 2014.